

AP2 Enhances ESG Integration in Asset Management

Stockholm (NordSIP) -AP2, the second Swedish national pensions buffer fund (Andra AP-fonden), has divested 10 more of the stocks it holds on grounds of financial climate risk, marking the further integration of ESG (Economic, Corporate and Social Governance) as part of its asset management strategy. This brings SEK 90 billion of the Fund's SEK 300 billion in AUM in line with ESG considerations.

The total number of holdings sold off due to the incorporation of ESG factors into its quantitative management of asset class global equities has now reached 76, the fund stated upon the release of its latest publication outlining its approach to the transition towards a low-carbon economy.

By making sustainability an integral part of its asset management activities and factoring it into its analytical and decision process, the broader range of decision data which emerges will enable better investment decisions based on reducing risk and improving the potential for increased returns, resulting in higher returns for Swedish pensioners, the fund says in a press release.

"One reason for making the integration of sustainability a priority in our asset management strategy is the conviction that it generates better long-term returns. Consequently, we have a comprehensive understanding of this area and a large number of staff who are keenly interested in these issues," said Eva Halvarsson, (*pictured*) CEO of the Second AP Fund.

ESG factors have gradually been integrated into the Second AP Fund's in-house developed mathematical model for asset class global equities over the course of the past Autumn. The implementation process is scheduled for completion before the end of the year, when ESG considerations will become fully integral to investment decisions, in conjunction with the other factors on which the model is based.

"We are one of few players in the industry to have taken this process to the next level, by analyzing the basic data instead of relying on pre-determined ESG factors. It is vital to get as close to the basic data as possible, a recognition that is fully in line with the Fund's overall approach to quantitative asset management," adds Tomas Morsing, Head of Quantitative Strategies at the Second AP Fund.

The Second AP Fund's ESG model comprises environmental factors of a concrete nature, such as the level of companies' carbon emissions or how much energy they consume. The model, however, also comprises data and indicators relating to ESG factors that may provide an impression of the company.

The fund described the next stage of the process as developing an ESG-weighted index for quantitative equities management to further enhance its strategic working approach. It also plans to integrate ESG factors in its management of global corporate bonds in the same way it now does for equities.

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